



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

**SUBJECT: COMMERCIAL SOLID
WASTE SYSTEM REDESIGN**

DATE: 03-12-09

Approved

Date

3/17/09

COUNCIL DISTRICT: City-Wide
SNI AREA:

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

On March 2, 2009, the Transportation and Environment (T&E) Committee directed the Environmental Services Department to provide for the City Council additional information on: 1) the benefits of combining recyclables collection and processing services; 2) the impacts of a prevailing wage requirement for recyclables sorters on the proposed commercial solid waste system; and 3) proposed program components that reduce costs and encourage competition.

Executive Summary

The following highlights the principal findings detailed in this report:

1) Benefits of Combined Processing and Collection Services.

Combining recyclables collection and processing into one contract for each of the two proposed service districts would provide the City the greatest opportunity for meeting its aggressive recycling goals, create a business environment where both large and small companies compete to provide the best and most cost-efficient processing and collection services, and reduce overall system cost and customer rates. It is for these reasons that most municipalities in the Bay Area including San Francisco and Oakland adopt a combined recyclables collection and processing services model.

2) Impacts of a Prevailing Wage Requirement on the Proposed System.

The additional annual cost to businesses in San José of requiring a prevailing wage instead of a living wage for commercial recyclables sorters is estimated at \$5 to \$7 million. These costs are based on the additional estimated 125 to 175 new recyclables sorters needed for sorting

the commercial recyclables and the current Collective Bargaining Agreement rates that are paid at California Waste Solutions' San José recycling facility. This change could likely be the most significant additional cost between the current and the new commercial solid waste system. In fact, the only completely privately-owned Bay Area recycling facility that staff could identify with a prevailing wage requirement is California Waste Solutions' agreement with the City of San José for residential recycling collection and processing.

3) Competition and Cost Reduction through System Design.

In order to secure the best rate and competitive services for San José businesses, the proposed Commercial System Redesign encourages competition. The new system maximizes competition through the creation of districts for multiple award options and promotes diversity of operations. The proposed redesign provides larger companies the incentive to propose comprehensive solutions and also encourages partnerships with and between smaller specialized companies.

BACKGROUND

On March 2, 2009 the T&E Committee approved forwarding to the full City Council consideration of the following staff recommendations:

- Approve development of a Request for Proposals (RFP) to solicit and award an exclusive franchise to collect and process commercial solid waste, recyclables, and organic materials for each of the two service districts for an initial term of ten years with two options to extend the term; the first extension for three years and the second extension for two years for a total of five years.
- Include living wage and employee retention requirements in the RFP.
- Direction to amend the City's Living Wage Policy to include exclusive commercial solid waste franchise services.

In addition, the Committee directed staff to provide additional information to Council regarding the benefits of combining recyclables collection and processing services, the impact of a prevailing wage on the new system, and program components that reduce cost and encourage competition.

ANALYSIS

The following analysis is based on staff experience with procurement and contract management in San José, as well as research on systems and experiences of other municipalities in the San Francisco Bay Area.

1. Benefits of Combined Processing and Collection Services

Combining recyclables collection and processing services would provide the City with the highest performing solid waste system, the best opportunities for both large and small companies

to compete, and lower cost. The most common model in the Bay Area is a single contract for collection and processing of recyclables. The majority of jurisdictions follow this model:

- Santa Clara County: the West Valley Cities (Los Gatos, Monte Sereno, Saratoga, and Campbell), and the cities of Santa Clara, Palo Alto, Milpitas, and Mountain View.
- San Mateo County: South San Francisco, Millbrae, and Daly City.
- San Francisco (cited in the February 28, 2009 edition of *The Economist* Magazine as having one of the best municipal recycling rates in the world).
- Alameda County: the cities of Alameda, San Leandro, Pleasanton, Dublin, and numerous other cities including Oakland, Emeryville, Castro Valley, Livermore, and Piedmont.
- Contra Costa County: the cities of Richmond, San Pablo, Pinole, Hercules, San Ramon, Concord, Oakley, Discovery Bay, Pittsburgh, Pleasant Hill, Clayton, and Martinez.
- Marin County: the cities of San Rafael, Larkspur, Ross, Fairfax, Belvedere, Mill Valley, Tiburon, Sausalito, and San Anselmo.

Integration of Recyclables Collection and Processing

To achieve the Green Vision waste diversion goals, the City will be increasing the recycling rate of the commercial solid waste system from approximately 20% in 2008 to 75% in 2013 and more than 90% by 2022. The City can significantly improve recycling by combining recyclables collection and processing services. This will require innovations in collection, processing, and marketing of new materials and strong customer support including technical assistance, contamination management, and collection services tailored to business type.

These services can most efficiently and seamlessly be implemented when solid waste contractors select their own working partners to develop an integrated system. Service alignment is critical to the increasingly sophisticated collection and processing required to achieve diversion goals. For example, decisions about trucks are influenced by how materials will be processed. The level and type of contamination in the materials collected can have a significant impact on the ability of the processing site to process the materials, minimize residue, and find viable markets. For a system to meet diversion and customer service goals, the collector and processor must view themselves as a team who only succeed when both parties succeed. This process is facilitated when the contractors select the most appropriate partners and design the system together.

With emerging innovations in energy conversion, the City sees the upcoming commercial RFP as the best near term opportunity to leverage private sector investment in conversion technology. Proposers would be more likely to invest in this infrastructure if they are able to control both collection and processing systems. If the materials collected are not aligned with the processing technology, the potential solutions become more expensive and may not function as designed. For example, the City of Los Angeles is learning that implementing energy conversion technology without closely coordinating collection specifics can create a system where the feedstock is not appropriate for the technology selected.

The City's experience in the past nineteen years has shown that collection and processing contractors who do not have established working relationships are focused on their individual contractual obligations rather than the broader City goal of maximizing diversion and providing

the best customer service. If they are not meeting their performance targets, contractors blame each other and the relationship can become adversarial.

An illustration of the various considerations for recyclables collection and processing is attached.

Opportunities for Partnership

The proposed commercial system is structured to encourage competition for the best rate and service. The proposed system would maximize the opportunities for competition, including districts for multiple award options, diversity of operations to encourage larger companies to propose, and opportunities for specialization that should encourage smaller companies to form partnerships. Solid waste companies are experienced in forming partnerships and this is a common practice in the Bay Area. For example:

- In the Palo Alto zero waste RFP process, GreenWaste Recovery (GWR) proposed to work with its affiliate Zanker Road Landfill, while Norcal proposed to team with Grover Landscape Company for processing mixed organics waste.
- In the Petaluma proposal selection process for 75% waste diversion, GWR proposed to work with Industrial Carting for processing construction and demolition materials, and Norcal proposed to work with Marin Sanitary Service for the processing of commercial recyclables.
- The owners of South San Francisco Scavenger, Alameda County Industries, and Pleasanton Garbage Service combined to acquire and operate the Sunnyvale collection company and proposed on the collection contract for the San Mateo County South Bayside Transfer Station Authority (SBWMA).
- Garbarino Waste Enterprises, Inc., Pestoni/Paradise, LLC, and Garaventa Enterprises, Inc. have teamed to provide services for the cities of Napa and Paradise and have prepared joint proposals for several other Bay Area communities.
- Norcal proposed to work with Smurfit-Stone to process recyclables for the West Valley Solid Waste Authority (cities of Los Gatos, Saratoga, Monte Sereno, and Campbell).

With the creation of two exclusive service districts, companies can be assured of a sufficient customer base to establish operations for that district while giving companies two opportunities to propose. Surveys of existing and planned processing facilities show that given the two year preparation time, there are many facilities that could potentially team with a collection company to propose for the City's commercial solid waste services, including:

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| • Green Team Material Recovery Facility (MRF) | • BLT Fremont Recycling and Transfer Station |
| • Green Waste Recovery MRF | |
| • The Recyclery at Newby Island Landfill | • Smurfit-Stone MRF |
| • The Rogers Avenue Transfer Station | • Davis Street Transfer Station |
| • The SMART Station | • Mission Trails Transfer Station |
| • California Waste Solutions MRF | • Zanker Materials Processing Facility |

Organics are a significant portion of the materials currently being disposed in landfills. Existing and planned operations to process organics are limited. To ensure that this material is recovered and to level the playing field, staff is currently negotiating to make organics processing capacity available as an option to all proposers with a specified maximum per ton composting price. Staff will procure a maximum per ton rate that is competitive based on regional cost information from recent procurements prior to the release of a collection and recyclables processing RFP.

It is also important to note that the number of potential proposers has become more limited recently due to company mergers, the economic downturn, and the expertise and resources needed for increasingly complex solid waste diversion contracts. For example, in 2008, the City of Palo Alto had only two responsive proposals, and the South Bayside Waste Management Authority had seven responsive proposals, two of which were joint venture submittals. Staff learned from these two processes how to promote the largest possible number of respondents for the City's proposed commercial RFP process.

2. Impacts of a Prevailing Wage Requirement on the Proposed System

Staff estimates that the additional cost for commercial waste services if the City required prevailing wage versus living wage for recyclable sorters is \$5 to \$7 million each year. This estimate is based on the California Waste Solutions current Collective Bargaining Agreement wages for their San José facility and the estimated number of new recyclable sorter positions needed to meet the City's waste diversion goals for the commercial sector. Prevailing wage could increase the cost of service by 15% for all businesses in San José compared to the cost under a living wage requirement. The estimated annual prevailing wage cost is greater than the annual amortized capital costs to replace the entire fleet of commercial solid waste collection vehicles over the ten year initial term of the agreement.

The City's current living wage is \$14.08 per hour and the comparable Collective Bargaining Agreement wage for sorters at the California Waste Solutions processing facility in San José is \$33.30 per hour, including mandatory overtime and benefits. When a contractor has a Collective Bargaining Agreement, these wages become the contractor's prevailing wage. Otherwise, the City-established prevailing wage applies. Based on a wage survey done in October 2001 of 17 facilities, the prevailing wage for MRF workers was \$18.12 per hour including the value of benefits. It is estimated that the new commercial solid waste system will require between 125 to 175 new recyclables sorters. This estimate is based on the number of sorters required to reach 75% recycling for apartment waste, a program which the City implemented in summer 2008.

If the City required prevailing wage, the cost of service could be significantly higher for San José customers. The City's current commercial solid waste franchise system has no wage requirement for recyclable sorters. Facilities process materials from numerous jurisdictions, and even if only one third of the material sorted at a facility came from San José, a prevailing wage requirement would cause the entire labor force to be paid prevailing wage. Since rates other jurisdictions pay for their tonnage does not include prevailing wage, San José would pay disproportionately more than other jurisdictions for the same service in effect tripling the cost differential.

Bay Area Wage Practices for Material Recovery Facilities (MRFs)

Recent research conducted by HF&H Consultants of over 30 different communities in the Bay Area indicated that while it is common to require some type of worker retention or preferential hiring for existing or displaced employees, most municipalities do not specify any wage levels at recyclables processing facilities. Privately owned processing facilities generally do not have wage requirements imposed unless the jurisdiction has taken a lead role in the siting and/or financing of the facility and the facility only processes materials from that jurisdiction. Examples of jurisdictions with facilities with no wage requirements are: Palo Alto, West Valley Solid Waste Management Authority, and Central Contra Costa Solid Waste Authority. The Fremont Recycling and Transfer Station does have wage requirements, but in this case the City of Fremont took the lead on site selection, permitting, and development, and has a financial investment in the operation and therefore specifies a wage. Another example of a government-owned recyclables processing facility is the facility owned by the South Bayside Waste Management Authority in San Mateo County. In some cases, publicly owned but privately operated facilities do have a wage specification that is identified in existing wage ordinances. Examples of these types of facilities are San Francisco's Pier 96 and Sunnyvale's SMART Station. California Waste Solutions material recovery facility in San José is the only privately owned and operated facility in the Bay Area that staff identified as having a contractual requirement to pay prevailing wage to its recyclables sorters. But even in this case, California Waste Solutions' facility *exclusively* processes waste from San José's residential recycling program.

While imposing wage requirement is not a standard practice, staff recommends living wage for the employees at the processing facilities that work under the proposed franchise commercial solid waste system. Requiring living wage would ensure, at a minimum, that these employees can pay for the basic cost of living in this area. Moreover, living wage would mitigate the financial impact to the facility operator and business community. Contractors are free to negotiate with their employees a higher wage but the living wage serves as a minimum wage.

3. Competition and Cost Reduction through System Design

In 2006, the City procured new contractors for the Residential Recycle Plus system to provide residential garbage and recycling collection and processing services for 80% of single-family households in San José at a service cost of approximately \$32 million per year. The City received only two responsive proposals for integrated recyclables collection and processing services. Staff conducted extensive interviews with the hauling firms who decided not to propose, including the three largest companies in California, to determine why they chose not to bid. Staff considered the results of the evaluation in developing the proposal before Council today.

These reasons were presented to Council at an August 15, 2006 study session and they were:

- A. The prevailing wage requirement for recyclables sorters was a challenge for established contractors, who would be required to incorporate prevailing wage workers within existing non-prevailing wage operations.

In balancing the City's interest in assuring a minimum standard for employees and the interests of the operators and business community, staff recommends a living wage.

- B. The short six year term of the contract did not provide sufficient time to amortize truck, facility, and other equipment costs.

Staff proposes an initial ten years and up to five years in extensions to allow proposers of the Commercial Program to amortize costs over a long period of time thereby lowering rates for businesses.

- C. The nine-month hauler mobilization time before service start date was too short.

Staff proposes a two-year transition.

- D. Requiring separate proposals on solid waste and recycling was a disincentive for large contractors that could not risk setting up new operations for potentially limited services.

Staff recommends a district model to maximize economies of scale, in both capital investment and in day-to-day operating efficiencies. This model also allows the City to evaluate costs, efficiencies, competitiveness, and various other factors in the potential responses. The proposed collection districts were developed after analyzing several factors including; type and tons of material collected, potential route density, and clear geographic boundaries. The model also provides diverse teaming opportunities for smaller companies.

Other recommendations that would reduce cost and encourage competition include:

Disposal

Pursuant to the City's agreement with International Disposal Corporation, the City intends to offer successful franchisees the option to dispose of materials at the Newby Island Landfill using the City's capacity at a competitive rate.

Rate Review

Staff recommends the City regulate the maximum rate that can be charged. In order to assure that the cap is set at a level which considers actual costs and revenue after the service is implemented, staff recommends a detailed rate review after the second year of service. This allows proposers to put together a proposal based on today's costs and assumptions without the risk of bearing the unforeseen fuel increases, recyclables markets declines, as well as the basic knowledge of the commercial stream of which associated costs would not be known until new programs are in place. This limited risk creates lower proposal costs and assures that services to businesses will be reasonably priced

HONORABLE MAYOR AND CITY COUNCIL

03-12-09

Subject: Commercial Solid Waste System Redesign - Supplemental

Page 8

Multiple Service Options

As indicated previously, the RFP will be structured to require proposers to propose on two different systems and propose an optional innovative approach that meets both the diversion and fiscal interests of the City. Staff will be able to perform a cost evaluation on the different service options.

COORDINATION

This report was coordinated with the City Attorney's Office and the Department of Public Works.



JOHN STUFFLEBEAN
Director, Environmental Services

For questions please contact Jo Zientek, Deputy Director Integrated Waste Management, at (408) 535-8557.

Attachment: Materials, Operations, Collection and Processing Integration

ATTACHMENT 1

MATERIALS, OPERATIONS, COLLECTION AND PROCESSING INTEGRATION

